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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000296

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [BO](#)

SUBJECT: GOB MOVING SLOWLY TO ATTRACT INVESTMENT

REF: A. MINSK 283

[1](#)B. MINSK 582

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

[1](#)1. (C) The government of Belarus announced its hopes to attract greater investment and to expand the share of foreign investment in the economy. However, the GOB has not undertaken any new initiatives to make the business climate more favorable for foreign investors. Systemic barriers and overall political conditions also discourage emerging local entrepreneurs from investing in growing their businesses beyond small operations. International companies with an established presence in Belarus will continue to invest, but at a relatively slow pace. We do not foresee meaningful reform in the near future. End summary.

GOB Sets Investment Sights Higher ...

[1](#)2. (SBU) At a March 30 conference hosted by the Advisory Council for Foreign Investment, Minister of Economics Nikolay Zaychenko said Belarus will reach USD 11 billion in capital investment in 2007, up from USD 9 billion in 2006. By 2010 he predicted the share of foreign capital would reach 15 percent, or four times the current 3.5 percent. (Note: The German Ambassador told Ambassador much of what official statistics count as German investment in Belarus actually comes from Belarusians with shell companies in Germany. End note.) Prime Minister Sergey Sidorskiy said Belarus' primary competitive advantages were its labor force, stability and location.

... But Does Not Have a Clear Plan to Attract Newcomers

[1](#)3. (C) Tatyana Manenok of the independent weekly "Belorusy i rynek" told Deputy Pol/Econ Chief the forum disappointed her because no new policies were announced. World Bank Country Representative Craig Bell made the only concrete recommendation -- doing away with the golden share rule that allows the government to renationalize firms. PM Sidorskiy politely dismissed this suggestion at the following press conference. Forum attendee Vladimir Novik, Vice President of Belarusbank, told us that he wanted to give a presentation to make a number of specific suggestions, but he was not included in the program.

[1](#)4. (C) On March 26, economists told visiting EUR/UMB Belarus Desk Officer Stephen Gee they did not see substantial increases in foreign investment in the near future. Georgiy

Badey, Chair of the Association of Entrepreneurs and Employers, said Lukashenko is not likely to sign off on a single privatization project quickly. Irina Tochitskaya, Deputy Director of the Institute for Privatization and Management, explained that potential investors were put off by the potential for Lukashenko nixing their plans and the possibility that worsening relations with Moscow would close the Russian market to exports from Belarus.

Small Business Tends to Stay that Way

15. (C) Tatyana Bykova, a former MP and coordinator of the UN-funded Fund for Economic Research and Legal Initiatives, explained that in China a majority of medium-sized exporters began as individual entrepreneurs engaged in selling imports. Belarus' regulations on businesses with more than three employees, its poor record of protecting property rights, and the inability to rent space to expand (ref A), according to Bykova, keep the vast majority of entrepreneurs from investing to grow their business beyond just selling imports.

Companies Present in Belarus Grow, but Only Slowly

16. (C) Mark Homnick, a native born U.S. citizen and Director General of Silicon Materials (ref B), said it took him months to take advantage of a tax break on a USD 1 million investment in new equipment. Even with his contacts and persistence he almost reached the point of exporting the equipment to avoid a thirty-percent tax that would have rendered it unprofitable. Aleksandr Yaroshevich of Coca-Cola Bottlers said Coke would upgrade one of its production lines, but it would cut back on planned investment due to higher energy costs and sluggish sales. He also realizes state

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support for local brands will limit Coke's market share and prevent the company from expanding as quickly as it has in neighboring countries.

Comment: GOB Still Betting on "Stability" over Transparency

17. (C) Sidorskiy's comment that Belarus' stability represents a competitive advantage ignores the fact that foreign investors' fates depend on the whim of Lukashenko. Despite all the talk of increasing investment, it appears even Sidorsky's Cabinet of Ministers, which most see as more market-friendly than other powerful institutions such as the Presidential Administration, either does not understand how to attract investment, or is unwilling to challenge entrenched interests.

Moore